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Supreme Court of the United States,

OCTOBER TERM 1937.

No. 396.

KELLOGG COMPANY,
*Petitioner-Appellee-
Defendant,*
against

NATIONAL BISCUIT COMPANY,
*Respondent-Appellant-
Plaintiff.*

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE THIRD CIRCUIT.

PETITIONER'S REPLY BRIEF.

Certain material statements in Respondent's Brief in Opposition are incorrect and misleading. Petitioner craves leave to point them out and to comment thereon:—

1. Respondent states, p. 1:—"This is an action for unfair competition." The general distinction between trademark and unfair competition cases is that trademarks are considered as exclusive, property rights, whereas the remedy of unfair competition is employed to restrain a defendant from unfairly using a generic, descriptive, geographical or other word or device which he has an undisputed right to use in a fair or honorable way. The instant case is purely and exclusively a trademark case. The decree below holds in substance and effect, that plaintiff has perpetual and exclusive trademark property rights in the words "shredded wheat" and in the shape, appearance or design of the patent-expired biscuit and thus in the patent-

expired machinery and method for making it. The very wording of the decree is based upon the maintenance of trademark rights (R. V. III-A, p. 2093). The District Court is ordered "to enter a decree enjoining the defendant from the use of the name 'Shredded Wheat' as its trade name and from advertising or offering for sale its product in the form and shape of plaintiff's biscuit *in violation of its trademark.*" (Italics ours.) The Court below held that these perpetual trademark monopolies are held to arise by prescription, i. e., by continued possession of the market after the patents expired, and are not based on any alleged wrongs of the defendant. No matter how distinctively defendant marked each biscuit to establish its origin, it still would be enjoined. The case is a trademark case and the second decision below reverses the established rule that relief in trademark and unfair competition alike rests upon and must be limited to the wrongs of the defendant and cannot rest upon any alleged prescriptive rights of the plaintiff. Petition, p. 17.

2. Respondent asserts that the case "is peculiarly one that must stand on its own facts." Brief, p. 2. Respondent did not produce a single witness, man, woman or child, who testified in effect "I asked for plaintiff's product and received defendant's product thinking it was plaintiff's." The trial court held that it was impossible to mistake defendant's cartons for plaintiff's. R. V. I, pp. 204-227 and V. 3, p. 2055. This fact is patent from the cartons themselves (V. I, pp. 205-219). The District Court found that no one had been deceived by defendant; that defendant's goods had not been and could not be sold as plaintiff's. The Circuit Court of Appeals does not find that anyone was ever deceived by defendant. It mentions the phrase "The Original bears this signature. W. K. Kellogg" but does not hold that that phrase ever led any one to purchase defendant's product thinking it was plaintiff's. The phrase was never in issue or heard of on the trial and is not enjoined. It

had been long out of use at the time the Court below reversed itself. If plaintiff's case "is peculiarly one that must stand on its own facts," then plaintiff is lost, because on the facts there was no deception and without deception there can be no relief. Plaintiff's case is peculiarly one of law. Unless revolutionary and unique law can be invented to apply to the fact as found by the trial court (V: I, p. 227) that "Plaintiff is complaining, not of unfair competition but of effective competition," plaintiff's case falls here as it fell in the trial court and in the first decision of the Circuit Court of Appeals.

3. Plaintiff states at p. 3 of its Brief In Opposition that Andrew Ross, its former employee, "was enjoined." This is misleading. Judge Thomas in the *Humphrey Cornell* case, 244 Fed. 508, merely prescribed that Ross should band or tag every biscuit even when packed in distinctive cartons. The futility of this tagging requirement is clear. Any dealer who would tear off a carton in order to deceive a lunch-room or plate-customer would just as easily tear off the band or the tag. If the dealer could not easily remove the tag, what would the customer do—eat it? Judge Thomas' "injunction" thus was a futile direction, not to stop manufacturing the biscuit, but to mark, band or tag it, and this was modified on appeal (250 Fed. 960) so as not to apply to biscuit reaching the final consumer in cartons and was to be vacatable if defendant found it could not tag or band the biscuit without an impossible competitive handicap.

Such discussion of that case brings out clearly the distorted application of it which the plaintiff has attempted to impose on pages 10 and 11 of its brief. Plaintiff at that point would have the Court interpret that case as prohibiting the marketing of these biscuits unless tagged or branded. The exact opposite is the true conclusion. The Court as stated, issued no injunction against the marketing of these biscuits in cartons and decreed that if it were impracticable to brand or mark them when sold loose, there should be no injunction at all. It was for this very reason and in light

shown in this case, and the injunction which has been granted is not limited to preventing any such wrong.

Thus the decision below, in granting an injunction and directing an accounting of profits and damages, is in conflict with the applicable decisions of this Court.

The court below ignored the decisions of this Court in *Holzappel's Co. v. Rahtjen's Co.*, 183 U. S. 1, 12, and *Beckwith v. Commissioner of Patents*, 252 U. S. 538, 545, in dealing with respondent's disclaimer of the words "shredded wheat", see p. 7, *supra*.

(6) The court below has so far departed from the accepted and usual course of judicial proceedings by ignoring the applicable and controlling principles limiting the right to relief in cases of unfair competition as to call for an exercise of this Court's power of supervision.

We do not suggest that this Court should concern itself with all departures from accepted principle in the lower courts, and thus become a court for the correction of errors, but we do most respectfully suggest that where one of the inferior courts by judicial decree is supporting and maintaining a perpetual monopoly in a standard food product long after the statutory monopoly under forty-one patents has ended, the case is one which calls for an exercise of this Court's power of supervision.

In considering the importance of the questions of law presented in this case this Court will wish to consider the decision of the Privy Council in England in *Canadian Shredded Wheat Co. Ltd. v. Kellogg Co. of Canada, Ltd., and another*, 55 R. P. C. 125, All English Law Reports Annotated, 1938, Vol. 1, Part 8, pp. 618-634. For the convenience of the Court we are filing with the Clerk printed copies of this decision. The case was decided on February 4, 1938, after the denial of the original petition for certiorari herein. It arose in the Canadian courts and the parties to the suit were the respective Canadian sub-

subsidiaries of the parties to this suit. The questions presented were the same as the questions here involved, and in all material respects the facts were the same as those in the case at bar. The principles applied were those which we believe should be applied under the applicable decisions of this Court. The result was in direct conflict with the decision of the court below.

Concluding the judgment of the Privy Council, Lord Russell of Killowen said:

"One further observation their Lordships desire to make. Litigation has taken place in the United States of America in which a company called National Biscuit Company sought to restrain a company called Kellogg Company from using the words 'shredded wheat'. The action was dismissed by decree of the U. S. district court for the district of Delaware, and, on appeal to the U. S. circuit court of appeals for the third circuit, the decree was affirmed. Subsequently, on reargument before the same judges, that decision was reversed, and a decree was entered:

'enjoining the defendant from the use of the name "shredded wheat" as its trade name, and from advertising or offering for sale its product in the form and shape of plaintiff's biscuit in violation of its trade mark'.

Their Lordships can only (but with the greatest respect for the court) express the view that, if the facts of that case were similar in all respects to the facts of the present case, they prefer the first judgment of the circuit court of appeals to its later decision. Their Lordships are of opinion that this appeal should be dismissed, and will humbly advise His Majesty accordingly."

The judgment of Mr. Justice Bennett upon which the court below relied as reaching a conclusion different from that of the Privy Council was decided in the Chancery Division of the English High Court of Justice on December 21, 1937, in a proceeding to correct the registry of trademarks, before the decision of the Privy Council, and is now pending on appeal in the English Court of

Giving plaintiff the benefit of every possible doubt as to the meaning of this statement, it is clear that if defendant had in 1932 used the word "shredded" in its *advertising only* and only the expression "a shredded wheat product" in small letters on the side of its whole wheat carton (V. I, p. 219) and only the dish-biscuit picture, plaintiff would not then have objected to defendant making the biscuit and marketing it as "Kellogg's Whole Wheat Biscuit." (Pet., p. 2, footnote).

8. Plaintiff states, Brief in Opposition, p. 4, that "It is undisputed that . . . both name and form of the biscuit were accepted by the trade and consumers as identifying the biscuit with plaintiff." This is sharply disputed and the contrary was found as a fact by the District Court. This finding was not disturbed by the Circuit Court of Appeals. The form of the biscuit is functional and was once also patented as a design and the words shredded wheat were always used in the patents, trademark registrations and advertisements to describe the biscuit itself not to indicate its origin. Pet. Appendix, pp. 27-38. Even the Circuit Court of Appeals in its second decision below specifically finds that the name shredded wheat "has come to stand for the product itself." V3A, p. 2089.

9. Plaintiff states, Brief, p. 4, that "During that fifteen years plaintiff . . . had expended more than \$17,000,000." in advertising. This figure is reached by pyramiding each years advertising upon the preceding years. Advertising investment is not like capital invested in constructing a building. The usual practice is for an advertiser to appropriate about twenty per cent of this year's receipts from sales for next year's advertising. In short the public put up this advertising appropriation. Defendant also has been a heavy advertiser in pointing out the competitive advantages of its small dark biscuit. We do not seek to belittle plaintiff's advertising figures which seem to have loomed so large in Judge Davis' mind on the sec-

ond hearing. We merely point out that the price of a product must include advertising expense or the producer will go bankrupt and in this case the public supplied the \$17,000,000 which the second decision below, in effect, holds has now purchased a complete monopoly by which perpetually to oppress the public which supplied the money through its daily purchases.

10. Plaintiff's brief, p. 5, refers to a cellophane window in defendant's package. Plaintiff evidently expects defendant never to let the public know what it is making—to hide its light under a bushel—not to call the product by the only descriptive term it has ever had and to make people buy "sight unseen." The words "whole wheat biscuit" are so broadly, so generically, descriptive as to cover dozens of different kinds of crackers, biscuit or breads made of whole wheat. As to the biscuit shape, this is what may be called a hidden trademark case. The shape-trademark is enclosed in a distinctive package and cannot be seen until the package is opened unless a cellophane window is used.

11. Plaintiff on page 6, criticizes defendant for using the words shredded wheat "as a tradename." A tradename differs from a trademark in that the former is descriptive. Defendant's package states prominently first that the product inside is "*Kellogg's*" and second, that it is "shredded wheat." Why should one fact be stressed less than the other? Should the public be told on the front panel that the contents are "*Kellogg's*" and then have to look to the small text matter on the side panel to find out just what the contents are? (V. I, p. 219). Plaintiff, in its brief below, Pet., p. 2, footnote, conceded defendant's right to make but it has always disputed defendant's right effectively to tell the public just what it makes.

12. Plaintiff's Brief in Opposition, p. 6, characterizes the revolutionary character of the second decision below better than defendant has done by stating that the first

decision "was not in harmony with the modern doctrine of unfair competition as defined by this court in *Schechter Poultry Corporation vs. United States*, 295 U. S. 495." Plaintiff, evidently realizes that none of the authorities cited by the Court below in its second decision really supports the conclusion reached. All of these "authorities" were urged on the court by plaintiff on the first hearing and the District Court was promptly affirmed. Plaintiff has now elected to defend the second decision by arguing that it is "in harmony with the modern doctrine of unfair competition." Just what that is, plaintiff does not state. Defendant sees no relevance in the *Schechter* case. What has an unconstitutional attempt by Congress to regulate the methods of removing chickens from crates in intrastate commerce in Brooklyn got to do with the reviving of long dead patents and making them perpetual as a new exercise of "equity" by the Court below?

13. Plaintiff argues, brief p. 6, that "The case is not one of public interest, but depends upon its own peculiar facts." The case patently is one of great public interest. The Court below seeks by judicial legislation to add a new kind of five year clause to the trademark statutes and to set up a revolutionary system of perpetual monopolies akin to patents. If this attempt to reverse the Singer-June doctrine of dedication of form and name by patent expiration shall succeed, the country will soon be oppressed by perpetual monopolies in every art and industry. Nothing could be much more important than that from a public standpoint.

The only "peculiar" fact cited by plaintiff as distinguishing this case is that defendant made "two retractions" and this is not true. Defendant withdrew its shredded wheat in 1922, put it out in 1927 and has never retracted it since. If defendant had retracted its product in 1930, what was there for plaintiff really to sue defendant about in 1932? Was this suit really about defendant's advertising, as plain-

tiff avers, brief pp. 4-6, or was it merely another form of plaintiff's advertising, as defendant avers? Plaintiff and its predecessor have now used the courts three times as sort of adjuncts of their advertising department, first, in 1928, when the later abandoned suit was brought, second in 1932 when this suit was started and, third, in 1937, when the Court below reversed itself. Pet., pp. 9-11-19 and R. V. IIIA, 2130-2199.

The Court below based its second decision on one fact of alleged unfairness—the "W. K. Kellogg" phrase, which came over from defendant's corn flakes cartons and was always associated with the Kellogg name. Plaintiff never complained of that phrase until after the trial was over. A mere request would have caused its removal. It was a small type relatively insignificant feature of a carton prominently marked as "Kellogg's." It never misled anyone. It had been out of use for a year or two when the second decision came down. It almost seems as though the Court below finally concluded that the litigation was really over that phrase, yet it is not even mentioned in the injunction as ordered. The complaint does not refer to it and the matter was never heard of by defendant until many months after the trial was over. The District Court does not mention it in its voluminous findings and plaintiff made no request for a finding about it at the trial.

Now plaintiff seeks to bolster the frivolous contention about the small text "W. K. Kellogg" phrase by the untrue statement that defendant made "two retractions (1922-1930)". That misstatement does not make the case itself either peculiar or even "modern". The law still is that relief in trademark and unfair competition cases alike must be based on wrongs or frauds of the defendant, not on perpetual monopolies of the plaintiff.

14. The cases cited by plaintiff on pp. 7-8 of its brief do not support the second conclusion of the Court of Appeals. The unauthorized use of unpublished news (*Associated*

Press case), unfair and false statements concerning a filter (*Motor Improvement Co. v. A. C. Spark Plug Co.*), use of a well known trademark to misrepresent the origin of another kind of goods (*Rolls Royce* and *Aunt Jamima* cases) are cases which have nothing to do with defendant's right to make a patent-expired product and advertise it fairly as of its own manufacture.

15. Plaintiff on page 10 of its brief states that there are "thousands and millions" of biscuit served outside of the carton. The trial Court found (V. I, p. 204) that about one biscuit in five thousand is sold apart from a carton. Both parties put out and push restaurant cartons containing two biscuit each. The injunction ordered below makes no distinction between biscuit sold in or apart from cartons. Both are banned by the injunction ordered.

16. Plaintiff seeks (brief pp. 11-12) to minimize the fact that on the facts here involved the Courts of Appeals for the Second and Third Circuits both held for defendant and then the Third Circuit reversed itself. The Sherman Anti-Trust case was dismissed without prejudice for lack of prosecution. A bill of discovery in aid thereof is now pending and defendant is now about to file a new action based upon further unfair acts of the plaintiff occurring since the first action was instituted. Defendant's Bill of Discovery in aid of its law action was filed to ascertain certain facts concerning the merging of the Shredded Wheat Company with plaintiff.

17. Plaintiff (brief pp. 14-15) cites no authorities as to defendant's disclaimer defense. It does not attempt to distinguish or avoid the *Beckwith* or *Rahtjens* cases. Pet., p. 19. Its only attempted reply is that "There is no point to the alleged disclaimers." They were made and under the law they are not revocable. They stand as a bar to the injunction ordered and they destroy the trademark claims now made by plaintiff.

18. Plaintiff states (brief p. 15) that "The use of the expression 'shred' and 'shredded' in patents and advertising is equally (as) unimportant" as the "alleged disclaimers." This characterizes both of plaintiff's statements. That is to say, the disclaimers are just as important or just as unimportant as the descriptive use of shredded wheat in plaintiff's patents, trademarks and advertisements. Both we submit are equally important and equally fatal to plaintiff's case.

19. Assignments of Error (Plaintiff's brief p. 15). These assignments were included in defendant's brief accompanying the petition. We understand they were not required, but we crave leave hereby, to add to them by averring that the Court below erred in ordering any injunction and any accounting and in reversing the trial Court, and in not adhering to its original decision affirming the order of the District Court dismissing the complaint.

20. In *Howe Scale Co. v. Wyckoff, Seamans & Benedict*, 198 U. S. 118, 137, Mr. Chief Justice Fuller said:

"It is said that the use of the word 'Remington' in the name 'Remington-Sholes' was unnecessary,—as if necessity were the absolute test of the right to use. But a person is not obliged to abandon the use of his name or to unreasonably restrict it. The question is whether his use is reasonable and honest, or is calculated to deceive."

In *Flagg Mfg. Co. v. Holway*, 178 Mass. 83, 90, Mr. Justice Holmes said:

"Both zithers are adapted for the use of patented sheets of music, but the zithers are not patented. Under such circumstances the defendant has the same right that the plaintiff has to manufacture instruments in the present form, to imitate the arrangement of the plaintiff's strings or the shape of the body. In the absence of a patent, the freedom of the manufacturer cannot be cut down under the name of preventing unfair competition."

21. We also confidently rely upon the authority of this Court in *William Warner and Co. v. Ely Lilly & Co.*, 265 U. S. 526. There the defendant was grossly unfair but this Court denied the power of the Court below to deny that unfair defendant a right to combine cocoa and quinine. Here the defendant has never deceived anyone yet it is to be enjoined perpetually and immediately from making the patent-expired biscuit in issue if this petition be now denied.

It is respectfully submitted that the petition should be granted.

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